



APPROVED
CITY OF SCOTTSDALE
AUDIT COMMITTEE

REGULAR MEETING
MONDAY FEBRUARY 22, 2010
CITY HALL, KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BLVD
SCOTTSDALE, AZ 85251

PRESENT: Councilman Robert Littlefield, Chair
Vice-Mayor Lisa Borowsky, (telephonic)
Councilwoman Suzanne Klapp

STAFF: Kyla Anderson, City Auditor's Office
Joyce Gilbride, City Auditor's Office
Lisa Gurtler, City Auditor's Office
Joanna Munar, City Auditor's Office
Sharron Walker, City Auditor's Office
Linda Butson, Facilities Management
Judy Dewey, Human Resources
Velicia McMillan, Human Resources
Rick Pence, Public Works
Mark Powell, Public Works
Stan Siegel, Public Works
Dan Worth, Public Works

Call to Order/Roll Call

Chair Littlefield called the meeting to order at 4:06 p.m. All Committee Members were present as noted above.

1. Approval of Minutes

Committee Member Klapp moved the approval of the minutes of the January 25, 2010 meeting. Chair Littlefield seconded the motion, which carried by a unanimous vote of three (3) to zero (0).

2. Discussion and possible direction regarding the City Treasurer search

Ms. Judy Dewey and Dr. Velicia McMillan of Human Resources requested feedback on the draft brochure, the job description and the timeline for the City Treasurer search. The Committee Members commented that these appear fine.

Ms. Dewey cautioned that two dates in the timeline would have to change because of City Manager interviews. The Audit Committee Members could review the applications at their regularly scheduled April 19 meeting, and interviews would then take place on May 11. Final candidates could then be interviewed by Council on May 18. Ms. Dewey clarified that the May 11 interviews would be private. Committee Member Klapp noted there should also be an opportunity for the full Council to meet with the three final candidates privately before the public interviews. Ms. Dewey said that could take place in an executive session. Chair Littlefield and Committee Member Klapp questioned whether a week between the two interview sessions is enough time, especially given that travel arrangements might be needed for some candidates. Committee Member Klapp commented that for the City Auditor position, some interviews were conducted via videoconferencing to avoid travel. Dr. McMillan suggested that the Council interviews could be scheduled for May 25. The Committee Members concurred that this is preferable. Staff will adjust the dates accordingly and send a revised timeline via email.

Dr. McMillan asked whether staff recommendations for where to advertise the position are acceptable. Committee Member Klapp indicated they seem reasonable. Chair Littlefield reviewed the listed recommendations. In response to Chair Littlefield's question, Dr. McMillan stated the Alliance for Innovation is a not for profit conglomerate of municipalities to which Scottsdale belongs. Committee Members accepted the staff recommendations.

3. Discussion and possible direction on Audit Report No. 1005, Commercial Refuse Collection

Ms. Joyce Gilbride of the City Auditor's Office reported that the Commercial Refuse Program provides collection services to businesses, multi-family housing developments, and City parks & facilities. The objectives were to determine if services are timely and accurately billed and if appropriate collection efforts are made if services remained unpaid. An additional objective was added to determine whether program costs are recovered through customer rates.

The audit concluded there is reasonable assurance that services to commercial customers are invoiced timely and accurately, and that efforts are made to collect delinquent accounts. Three areas were noted for improvement.

The first relates to cost recovery. Since FY 2005/06 commercial refuse program costs have not been recovered through user rates. At the time of the rate adoption for FY 2009/10, a program deficit of \$414,000 was forecast. Despite several years of operating losses, a separate analysis of commercial refuse fees has not been presented to Council as part of its annual adoption of rates and fees. Instead, the commercial program fees have been adjusted each year based on the residential solid waste program fees.

The auditors found that landfill disposal fees were being incorrectly calculated for certain commercial customers. Customers who were charged a flat rate for service were

inadvertently double-charged a State landfill fee of 52 cents per container. The total overcharge was approximately \$48,600 for the year. However, without the overcharges, the program would not have collected sufficient revenues to cover the landfill fees paid by the City.

The audit found that administrative processes could be streamlined. Credit card information should be handled more securely. Collection of delinquent accounts should begin sooner and customer information should be updated online by program staff.

Ms. Gilbride stated that management concurred with all of the audit findings. Rick Pence, Solid Waste Director, Mark Powell, Commercial Refuse Program Coordinator, and Dan Worth, Public Works Director, were in attendance.

Committee Member Klapp inquired whether it would make sense to have contracts with some of the larger accounts. Ms. Gilbride said customers can enter into a contract up to one year and receive a five percent discount if they do, but contracts are not required.

Mr. Pence said they experience very little turnover of accounts. One of their sales points is that a contract is not required. They consider that to be an advantage over a private company.

Since revenues are not meeting costs, Committee Member Klapp inquired whether the department has compared its rates to private companies.

Mr. Worth said that revenues can meet costs, depending on the time frame considered. In the three or four years preceding FY 2005/06, the program generated a surplus, which went into the Solid Waste Enterprise Fund. He stated that rates are always tracked separately, and staff will adjust the rates as the audit recommended. Mr. Worth added that this year their current projection is a shortfall of just \$353, which is one-hundredth of one percent of the budget. Mr. Worth responded to Committee Member Klapp's query by explaining that private haulers do not publish a fee schedule. They negotiate rates with each customer, so a comparative study is not possible.

City Auditor Sharron Walker summarized that the auditors' main concern was to make sure commercial rates are considered separately from residential so they can recover costs.

4. Discussion and possible direction on Audit Report No. 1006, Custodial Services Contract Administration

Ms. Joanna Munar of the City Auditor's Office reported that this audit was to verify contract compliance and whether the City receives the services it pays for. Auditors found that some custodial services are being properly performed, while others need improvement. Because facilities are geographically dispersed, the Facilities Management contract administrator cannot monitor all contract facilities personally on a regular basis. The auditors recommend establishing on-site building advisors to facilitate on-site monitoring. In addition, they recommend that the contract administrator enhance the existing contract specifications checklist to be more comprehensive and use it or a similar tool to communicate custodial expectations to on-site City staff.

Ms. Munar stated they found a number of change orders for the custodial services contracts that appeared routine in nature and within the scope of the originally contracted services. However, the contracts did not have the applicable terms to allow change orders. Additionally procedural guidance in Administrative Regulation 216 is not consistent with the City Procurement Code. As a result, signature authority approvals, change order forms, and procurement processes were not described consistently with the Code. She noted that Mr. Worth and Ms. Linda Butson were in attendance.

Mr. Worth assured Chair Littlefield that management agrees with the audit recommendations and that it is a great idea to enlist building occupants to help monitor contractor performance.

5. Discussion and possible direction on Audit Report No. 1008, Real Property Leases and Licenses

Ms. Lisa Gurtler of the City Auditor's Office reported that this audit reviewed the identification and tracking of the City's real property leases and license agreements with terms greater than one year. She noted that an earlier audit led to a new administrative regulation to improve tracking of the agreements in a centralized database. This is the responsibility of Asset Management staff in the Public Works and Water Resources Division. In addition, they are responsible for the development of real property agreements and the acquisition and disposal of real property throughout the City.

The auditors noted four areas where improvements could be made.

The information in the database is neither complete nor comprehensive. For example, the Giants' agreement with the Stadium and the SkySong lease agreement were not included.

Asset management staff oversight of real property agreements is limited. Other City departments typically develop and manage their own agreements independently.

Accounts receivable related to these agreements are often not recorded in the City's accounts receivable billing system. Only 14 percent of the agreements have automated billings generated. However, testing did not reveal any instances where payment had not been received.

In addition to centralized real property database, a second database exists which contains some overlapping information. The auditors believe that combining the two databases could be beneficial.

Committee Member Klapp inquired whether the unrecorded accounts receivable affects the City's ability to budget. Ms. Gurtler said that at the end of the year, staff make adjusting entries so the budget is not affected. Ms. Walker said that not recording the billings as receivables increases the risk of not collecting payments. The adjustments that are made are for payments that have been recorded. Ms. Gurtler said that the contract administrators have ongoing communication with the entities; however, formal accounting practices are not being followed.

Mr. Worth assured Committee Member Klapp that they plan to work towards automatic billing for all leases.

Chair Littlefield asked how many leases the City has at the Airport. Ms. Gurtler replied that she does not know. This is information they would be able to obtain from a comprehensive database.

Committee Member Klapp inquired whether IT could help with the database. Mr. Worth said it is a fairly new database that is still in development. Current leases are in it, as are many older leases. Mr. Worth said building it is a long, arduous process, and he agreed that there is room for improvements to the functionality of the database. IT staff will be helping with that. Mr. Worth added that there are many different types of agreements among the various leases.

6. Discussion and possible direction to staff regarding status of FY2009/10 Audit Plan

Ms. Walker stated, as the schedule shows, they are current on all audits. The only item with a March due date is the audit follow up status report. She commented that it does not appear critical for the Audit Committee to meet in March.

Ms. Walker anticipates that the energy billings audit will be completed in August. As a result, she plans to begin the special event/off-duty coordination audit sooner than anticipated.

Committee Member Klapp agreed with the suggestion that a meeting in March is not needed. She also noted that additional Committee meetings will be needed for the Treasurer recruitment. The other Committee Members concurred.

Ms. Walker told the Committee that, as requested at the January meeting, she had spoken with the City Attorney as to whether City Council action would be required on items, which are found to have not been implemented in the audit follow-ups. The City Attorney suggested that for any non-implemented items where there are issues of legal compliance, Council may want to consider taking action. As far as items that are best practices that the auditors have recommended, this is more of a judgment call. The City Attorney also noted that any direction for staff would go to the City Manager. Ms. Walker said starting with the next follow-up report, she will include a summary of non-implemented items.

Ms. Walker noted that in January staff did not have complete fourth quarter and annual taxpayer survey data because the Tax Audit surveys had not been mailed out. As the Committee Chair requested, she asked the City Attorney about the effect of noncompliance with this Code requirement. After review, the City Attorney noted that the office is required to provide an annual report; the quarterly requirement is to report on any surveys that have been received since the last report. Technically, they are in compliance, but Ms. Walker stated they still should be making their best effort to send surveys out as planned. Accordingly, she is working with the Interim City Treasurer, since Financial Management previously sent out the surveys, and the Assistant City Manager, who now has Tax Audit as one of his areas. When the April TPRO report is due, she believes they will have Tax Audit survey results to report.

7. Discussion and possible direction regarding the management response time for a draft audit report

Ms. Walker stated that currently the City Code allows 30 days for management to respond to draft audit reports. As previously discussed with the Committee, in her past experience, the typical response time allowed is two weeks. Ms. Walker noted that the City Manager agreed that staff are likely responding on the 30th day because that is the due date. He expressed no opposition to this proposal. Chair Littlefield recalled that the response time used to be 15 days and it was increased to 30 days. He had not agreed with increasing the number of days allowed. The Committee Members concurred that this makes sense, and Chair Littlefield directed Ms. Walker to bring this item forward for City Council consideration.

8. Discussion of agenda items for next Audit Committee meeting

The next meeting will take place on April 19.

Public Comment

None

Adjournment

With no further business to discuss, being duly moved and seconded, the meeting adjourned at approximately 4:43 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz